one of the first or second party investor's assigned funds are reduced to zero, closing all that investor's contracts at that price, and simultaneously closing all the contracts held by the other of the parties at the same price.

REMARKS

Applicant has carefully reviewed the Office Action dated December 31, 2001. Reconsideration and favorable action is respectfully requested.

The claims have been amended to address the Examiner's rejections under 35 USC 112 and 101.

This claim removes the objections related to the format of the claim and now particularly points out and distinctly claims the subject matter regarded as the invention.

The claim rejections under 35 USC 102 are also now met since the claims include the step of the clearing house computer exercising the options on the contracts in certain circumstances. The particular circumstances occur when the value of the contracts moves so that an investor has too much of his assigned funds transferred to the counter parties and does not provide further funds to cover the required proportion of the contracts held. The examples in the specification illustrate this at some length.

When a value change occurs for contracts, the short position gains and the long position loses or vice versa. The losses are immediately transferred from those losing to those gaining. (A party may have a number of contracts and may have different counter parties to different contracts). When an investor has insufficient assigned funds to cover the required proportion of the contracts held, the clearing house computer automatically moves to dispose of the excess contracts, that is the contracts that are not covered by the required assigned funds. Also, when an investor's assigned funds are reduced to zero, the clearing house computer automatically closes

all the contracts held by that investor whether he has long or short positions, and also closes out all the counter parties to those contracts at the same price.

This operation of the exchange prevents parties from losing more than they are prepared to stake as assigned funds no matter how badly the market turns against them. Of course at the same time it may limit the profits that can be made, since if an investor is holding contracts and gaining and the contracts are closed out when the counter party's assigned funds reach zero, the gaining party's gain is frozen at that price. Of course the gaining party can reinvest the funds released from the closing of the contracts to buy or sell more contracts.

Applicant has now made an earnest attempt in order to place this case in condition for allowance. For the reasons stated above, Applicant respectfully requests full allowance of the claims as amended. Please charge any additional fees or deficiencies in fees or credit any overpayment to Deposit Account No. 20-0780/LAUS-24,408 of HOWISON, THOMA, & ARNOTT, L.L.P.

Respectfully submitted,
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<u>Version with Markings to Show Changes Made</u>

14. (Once Amended) <u>A method of operating</u> [In] a contract exchange [providing] <u>to provide</u> a market place for the trade of contracts on which options are held, the trade taking place between investors [including] <u>comprising the steps of</u>:

<u>providing</u> a cash depositing facility comprising a computer based cash management fund having depositing accounts into which said investors deposit funds, and from which said investors assign at least part of their deposited funds, known as assigned funds, for the opening of said contracts;

<u>providing</u> an automated real time screen trading system accessible by said investors using personal computers to trade contracts in said market place; and

<u>providing</u> a clearing house computer electronically linked to said cash depositing facility and said automated real time trading system;

[a method of] operating said clearing house computer in the contract exchange to control the operation of said market place<u>;</u> [, comprising the steps of:]

requiring that each investor has sufficient assigned funds available to cover a proportion of the price of a contract, as determined by a leveraging ratio applied to that contract, before allowing that investor to open that contract;

creating an indivisible financial package contract between a first party investor that takes a long position in the contract and a second party investor that takes a short position in the contract, both of whom, as a result of the creation of said indivisible financial package contract, become the beneficial owners of the proceeds of a binding obligation requiring a cash settlement based on a settlement price of a specific quantity of a specified type of product at an agreed price, place and time;

trading contracts between first and second party investors who

choose to trade;

recording incremental contract price changes causing the first and second party investors to gain or lose the entire change in the value of the contracts held, resulting from the price changes depending on whether they hold long positions or short positions;

transferring said entire value changed from the losing one of the first and second party investors assigned funds and into the gaining one of the first and second party investors assigned funds after each said trading event;

exercising said options to dispose of some or all of a first party or counter party investor's contracts when their assigned funds become insufficient to cover said proportion of the value of the contracts they hold after a trading event, but if it is not possible to dispose of the contracts, then when the value changes such that one of the first or second party investor's assigned funds are reduced to zero, closing all that investor's contracts at that price, and simultaneously closing all the contracts held by the other of the parties at the same price.